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BY THE U.S. GENERAL ACCOUNTING OFFICE

**Report To The Chairman
Subcommittee On International Trade
Committee On Finance
United States Senate**

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U.S. Customs Service: Import Specialists' Duties And Reviews Of Entry Documentation

The U.S. Customs Service import specialists are responsible for assessing duties on goods being imported into the United States and for enforcing import quotas and other merchandise restrictions.

At the request of the Subcommittee, GAO discusses (1) the import specialists' duties in processing entry documentation, (2) Customs' efforts to streamline the review process, (3) the number and types of errors found as a result of the import specialists' reviews, and (4) Customs' efforts to measure the quality of its entry processing function.

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GENERAL GOVERNMENT
DIVISION

B-216217

The Honorable John C. Danforth
Chairman, Subcommittee on
International Trade
Committee on Finance
United States Senate

Dear Mr. Chairman:

Your letter of December 7, 1984, and prior correspondence noted several key questions facing your Subcommittee in its oversight of Customs Service operations. Essentially, the questions concerned whether Customs is deemphasizing its commercial operations of collecting import duties and permitting only admissible products to enter the country. The questions have arisen because the volume of imports has been increasing while the number of import specialists has remained about the same.

Import specialists play a major role in determining whether importers and/or their brokers have properly classified and valued imported products, correctly calculated duties owed, and provided all data and documents required to admit merchandise into the country. Classification of imported goods determines the tariff rate for duty assessment purposes and is the basis for enforcing quota and other merchandise restrictions. The classification process provides the means to accumulate statistics on imported products, such as dollar value, quantity, and country of origin.

The formal entry[1] workload has increased about 40 percent from fiscal year 1981 to fiscal year 1984--from 4.6 million entries to 6.4 million. In September 1984, Customs had 990 import specialists to process the workload or about 141 fewer than in September 1981.

Customs commercial operations and budget officials told us that, although there have been personnel reductions because of

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[1]As used in this report a formal entry consists of Customs forms, commercial invoices, and other documents required for determining the admissibility of merchandise valued over $250. (As of December 1984, the value was increased to $1,000). Formal entries account for about 99 percent of the duties collected by Customs.

budget restraints, the agency has not been deemphasizing commercial operations but has been working to make the entry review process more efficient. Customs, since 1967, has been working on a system (referred to as the "bypass system") to reduce import specialists reviews of low-risk entries on the basis of criteria developed at each field location. Low-risk entries are those determined to be simple, routine, and not likely to violate import requirements. As of February 1985, Customs was developing criteria to be applied nationally, which would complement that developed at field locations. The national criteria will indicate those entry documents which must be reviewed. All other entries will be bypassed except those which import specialists at field locations determine to be in need of a review.

Having import specialists review selected entries does not necessarily indicate that Customs is deemphasizing the functions of collecting duty and assuring the admissibility of imports. How well those commercial operations functions are performed depends to a large extent on the implementation of a sound bypass system. However, until Customs fully develops and implements criteria for its bypass system, we cannot evaluate the effectiveness of the system.

To provide the Subcommittee with an overview of commercial operations, we arranged with your office to provide information on

--the import specialists' duties in processing entry documentation,

--Customs' efforts to streamline the import specialists' review process,

--the results of the import specialists' reviews from the standpoint of the number and types of errors found in the entry documentation, and

--Customs' efforts to measure the quality of the entry processing function.

Per discussion with your office, we conducted our review of import specialists activities at two of the largest Customs districts--the New York Seaport Area Office and the Los Angeles District. These two locations accounted for about 1.1 million, or 18 percent, of the total 6.5 million formal entries received by all 45 Customs districts and about $3.9 billion, or 31 percent, of the $12.5 billion total duty and tax assessments in fiscal year 1984. Further, about 20 percent of the import specialists who review entries are located at these two sites.

(See app. V for a more complete discussion of our scope and methodology.)

At the two locations selected, we found that most of the import documentation submitted to Customs was determined to be error free by import specialists. In fiscal year 1984, the New York Seaport and the Los Angeles District processed 501,313 and 652,612 entries, respectively. Import specialists reviewed about 90 percent of the entries and found errors in 7 and 4 percent of the entries reviewed at New York and Los Angeles, respectively.

For fiscal year 1983, the errors affecting duties and taxes resulted in $26 million in additional assessments to importers and $22 million in refunds to importers. The dollar impact of entry errors affecting duties for fiscal year 1984 was not available as of March 1985.

Customs' quality assurance program results showed that, nationwide, about 3 percent of the entries that had gone through the entry review process and had been liquidated (the final computation of an importer's liability) in fiscal year 1983 had errors. According to Customs officials, the program has yet to generate all the information necessary to adequately assess the entry review process. The officials told us, however, that Customs is expanding the program to provide more detailed information. Specifically, Customs recently began providing computed-generated management reports that show the types of errors, but not the percentage of entries with errors, found in quality assurance reviews by region and districts for fiscal year 1983. It plans to issue additional reports by 1986 that will further identify problem areas in the entry processing operations and assess the criteria used in bypassing entries.

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More detailed information on the results of our work is presented in the appendixes. We trust the information provided will be useful to your continuing oversight efforts. As requested by your office, we did not obtain agency comments on this report. However, we have discussed the information contained in this report with Customs officials who manage the entry review process. They agreed with the data.

As arranged with your office, unless you publicly announce the contents of the report earlier, we plan no further distribution until 10 days from the date of the report. At that time we

will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

W.J. Anderson

William J. Anderson
Director

 APPENDIX I

IMPORT SPECIALISTS' DUTIES

Import specialists are responsible for assessing the correct duty on imported articles and for determining their admissibility. They also

--determine whether special trade programs such as quotas, countervailing duties, and antidumping statutes apply to the imports;[1]

--verify statistical information on imports for use in monitoring foreign competition and negotiating trade agreements; and

--enforce certain legal and regulatory requirements of other agencies, such as those pertaining to trademark and patent rights.

Import specialists carry out these responsibilities mainly by reviewing importers/brokers' entry documents, such as invoices, contracts, and purchase orders. Import specialists rely heavily on their familiarity with and knowledge of the particular merchandise and the record of the importers. Import specialists also utilize an extensive body of legal principles, court decisions, and Customs rulings which have evolved over the years.

Verifying that the importers/brokers have assigned merchandise to its proper category in the Tariff Schedules of the United States Annotated is performed by the import specialists. The tariff schedules list the merchandise's dutiable status and duty rate, aid in enforcing quotas and other trade programs, and provide the means to accumulate trade statistics.

The Tariff Schedules of the United States (TSUS) list about 6,000 articles and products by specific name; type; kind; physical characteristics such as material composition, size, and weight; use; or a combination of the foregoing. The five-digit TSUS numbers are further subdivided by the addition of two-digit suffixes at which point the TSUS become the Tariff Schedules of

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[1]A countervailing duty is an additional duty assessed on imported merchandise determined to have been subsidized by a foreign government and to have materially injured or threatened with material injury a competing U.S. industry. Antidumping statutes provide for an additional duty to be imposed when imported merchandise is sold in the United States at prices lower than the prices at which comparable goods are sold in the country of origin and the sales cause or threaten material injury to a competing U.S. industry.

the United States Annotated. There are more than 10,000 seven-digit item classifications which provide more specific product descriptions for compiling import statistics used by the Department of Commerce and the International Trade Commission for determining injury to domestic industry.

At the two locations we reviewed, the import specialists' review of import documentation was carried out in two phases. A pre-entry review was made prior to accepting the entry documents in order to ensure that all substantive entry requirements, including classification, value, rate of duty, and other entry requirements were complied with and all required documents were submitted. If the entry documents were not acceptable, they were held pending receipt of further information or returned to importers/brokers for correction. On some entries, the import specialists would also advise importers/brokers on the entry requirements and examine samples of merchandise before the entry documents are submitted.

Once entry documents were formally submitted by importers/brokers or the requested information was received and accepted by import specialists, the documents were subjected to a post-entry review. Entries found to have the correct documentation at any stage of the review process were liquidated, which means that a final computation of duty was made.

APPENDIX II

CUSTOMS EFFORTS TO STREAMLINE ENTRY REVIEW PROCESS

Customs has, since 1967, sought to eliminate import specialists' reviews of routine, low-risk entries. Achieving this goal would allow the specialists to concentrate on entries requiring intensive reviews and provide a way of handling increasing workloads.

Customs' 1967 system established agencywide guidelines for eliminating some of the entries reviewed by import specialists. Under this system the import specialists were to identify the low-risk entries, and such entries were to be processed by clerical staff. The low-risk criteria was based on entries being free of duty or subject to a low amount of duty because of low rate, low value, or both. The criteria was also based on whether the merchandise was imported regularly and the accompanying entry documents were consistently error-free. According to a Customs headquarters report, this attempt at a bypass system was not successful because some import specialists were reluctant to place entries on the bypass list.

In 1974, Customs attempted to implement another bypass system. An automated system was envisioned to facilitate the selection of entries to bypass review. After 5 years of developing and testing, the effort was terminated because it produced large backlogs of unprocessed entries. The backlogs were attributed, in part, to the difficulty in developing and maintaining suitable bypass criteria, computer malfunctions, and the inability to hire and retain an adequate number of clerks to input entry information.

In June 1981, Customs instructed its regions to bypass 35 percent of their entries. The criteria for determining which entries could be bypassed were to be developed by import specialists at the field level. The specialists were allowed to make a cursory review of the bypassed entries. Two years after implementing this policy, all Customs regions were meeting the bypass rate.

In August 1983, Customs increased the bypass rate to 50 percent for all entries received in each district office (except the districts within the Northeast Region which were excluded from the directive). As in the June 1981 instructions, the import specialists were to develop the criteria for bypassing entries. This new policy, however, precluded the import specialists from making a cursory review of the bypassed entries. As of September 1984, Customs statistics showed that 23 of 35 districts (excluding districts in the Northeast Region and 1

district for which statistics were not available) met the 50-percent bypass rate. The New York Seaport Area Office and the Los Angeles District were not meeting this bypass rate.

In November 1984, the bypass policy was modified to permit import specialists to perform a cursory review of not more than one-half of the bypassed entries. A Customs official told us that the modification was made because of the lack of clerical staff to process bypass entries and because some entries can be processed more expediently with a brief import specialist review.

As of February 1985, Customs was developing criteria to be applied nationally for selecting entries to be reviewed. All other entries are to be bypassed except those which import specialists at field locations determine to be in need of review. According to Customs, national criteria would help ensure uniformity throughout Customs in selecting entry documents for review. A Customs official told us that the target date for having the criteria developed is July 1985.

RESULTS OF IMPORT SPECIALIST REVIEW OF ENTRY DOCUMENTATION

Customs statistics for New York and Los Angeles indicate that the import documentation for most entries submitted to Customs was error-free. In fiscal year 1984:

--The New York Seaport processed 501,313 entries. Of these, 441,369, or about 88 percent, were reviewed by import specialists and about 7 percent of those reviewed contained errors.

--The Los Angeles District processed 652,612 entries. We were unable to determine the disposition of about 3 percent of the entries. For the remaining 631,024 entries, import specialists reviewed 574,942 , or about 90 percent, and found that about 4 percent contained errors.

Of $12.5 billion in duties collected by Customs in fiscal year 1984, $185 million, or about 1.5 percent of the total, was assessed as a result of post-entry review by import specialists. About $155 million was refunded to importers because they overestimated duties. Customs does not maintain information on the amounts of additional duty billings or refunds resulting from pre-entry review.

At the two locations we selected, about $3 billion in duties and taxes was assessed in fiscal year 1983. Of this total, about $26 million, or about 1 percent, was assessed as a result of post-entry review. About $22 million was refunded.

To determine the nature of the errors detected by import specialists in the entry documentation, we randomly sampled pre- and post-entry changes at each location we selected. We selected July 1984 as our test period for changes made during pre-entry review. To analyze errors detected in post-entry review we used the universe of entries changed in fiscal year 1983 which was the most recent fiscal year for which such data could be obtained. (See pp. 9 to 10).

Of the 90,187 entries given a pre-entry review in July 1984, at the locations we visited, an estimated 1,810 or about 2 percent, required a change. There were 2,186 changes of which 1,836 related to classification, value, or duty. The other 350 changes related to errors not involving classification, value, or duty. (See table on p. 10.) On the basis of our sample, we estimate that 77 percent of the changes relating to duty involved classification issues, 5 percent involved value determinations, and 18 percent involved other duty-related factors.

In fiscal year 1983 in the two locations we visited, 46,727 entries were found to contain an estimated 51,607 errors in

post-entry review. (See table on p. 10.) We estimate that 55 percent of the changes involved classification issues, 15 percent involved value determinations, and 30 percent involved other duty related factors.

Classification changes occur when an import specialist places the article in a TSUS classification other than the one selected by the importer/broker because of factors such as the size, weight, composition, physical characteristics, or use of the article being imported. For example:

> A broker classified women's sweaters with ruffles as unornamented apparel. The import specialist considered the ruffles ornamentation and classified the sweaters as ornamented apparel. As a result, the duty increased from $1,850 to $2,065.

Valuation changes usually involve adjusting the value of the merchandise. Import specialists appraise imported merchandise using one of six methods. The transaction value method, according to Customs, is used for over 90 percent of all entries. Under this method, the transaction value of the merchandise is the price of the merchandise sold for exportation to the United States. Ascertaining the correct transaction value requires that the import specialist have knowledge of such factors as methods of payment, costs or charges relating to the transaction, the appropriateness of selling commissions and royalties, construction or assembly costs, and the relationship between the buyer and seller. The following is an example of an import specialist's adjustment to transaction value.

> For an entry of stainless steel hollow-handle knives, an import specialist added a charge for the master mold because it was used to construct the knives. As a result the duty was increased from $560 to $815.

Duty-related changes involving errors other than classification and value include adjustments to countervailing duty, erroneous exchange rates, clerical errors, or quantity or weight figure errors.

Errors not related to duty involve issues of admissibility, violations of legal or regulatory requirements, and violations of trade programs. These types of errors include those in which importers

--did not obtain or erroneously obtained a license or permit from another agency;

--failed to file the entry documents in the time required; and

--did not indicate the merchandise was subject to a quota.

APPENDIX IV

QUALITY ASSURANCE

To provide Customs management with information on the quality of entry processing operations on a nationwide basis, Customs implemented a quality assurance program in 1982. Program results indicate that over 95 percent of entries are being liquidated correctly. However, several regions have encountered problems in implementing the program, and some regional and district personnel have raised questions concerning the appropriateness of the quality measures employed.

Under this program, Customs selects a sample of liquidated entries quarterly in each region to determine whether the importers' entry errors were detected and corrected. The selected entries include those reviewed by import specialists and those which had bypassed the review.

The reviewing official evaluates the classification of the entry, its appraisement, the revenue collected, and whether the admissibility requirements were met, such as compliance with Customs and other agency laws and programs. The program results indicate to Customs that most regions' performance in processing entries has been of high quality.

The quality assurance program results for 1983 showed that 3.4 percent of the entries which had gone through the entry review process and had been liquidated had errors. Also, error rates for bypassed entries (3.5 percent) and import specialist reviewed entries (3.4 percent) were not significantly different. The overall error rates for the New York and Pacific Regions (which includes the New York Seaport Area Office and the Los Angeles District) were 3.5 and 7.4 percent, respectively.

Headquarters, regional, and district officials generally support the concept of quality assurance although they have pointed out problems with the program. This assessment was made when, in May 1984, the Assistant Commissioner for Commercial Operations solicited the views of regional commissioners, district managers, and supervisors on the effectiveness of the program and how it could be improved.

Eighteen of the 29 officials that commented on the accuracy of the quality assurance program stated that the reviews conducted up until that time accurately reflected the quality of entry processing operations. However, two officials said that error rates were artificially low because some import specialists did not provide adequate documentation or maintain complete files, thus precluding a thorough review of all entries. Two other officials said that the error rates were distorted because no differentiation is made between major and minor errors. In addition, four officials suggested that in order to give a more valid picture of entry processing quality, entries should be

sampled by district rather than region because processing takes place at the district level.

Twenty-one of 24 district and regional officials who addressed the qualifications of reviewers in their comments stated that reviewers were capable of performing effective quality assurance reviews. However, half of the six regional commissioners responding stated that the number of reviewers in their regions was insufficient. Four regional commissioners suggested that not enough travel funds were available for reviewers to make all the onsite visits necessary to conduct complete reviews. Two regions did not complete all the reviews required, which according to Customs, was due at least in part to a lack of resources.

Headquarters has stated that regional and district concerns with the program are justified and steps are being taken to rectify the program's problems. Accordingly, Customs is encouraging import specialists to improve their entry processing documentation and has begun collecting entry samples by district. In addition, headquarters has emphasized to the regions that the quality assurance program is of sufficient priority to justify assigning the resources necessary to complete all reviews.

The quality assurance program in the past identified only the number of reviewed entries in each region that had errors, but it did not provide any information on the nature of these errors. However, Customs recently issued computer-generated management reports that show the type of errors, but not the percentage of entries in error, found in quality assurance reviews by region and district for fiscal year 1983. The agency plans to issue additional reports by 1986 that will indicate, among other things, the percentage of reviewed entries with errors in each district and the effect of review errors on revenue. These reports, according to Customs, will give it the ability to pinpoint problem areas in its entry processing operations.

OBJECTIVES, SCOPE, AND METHODOLOGY

As arranged with your office, we gathered information on (1) the import specialists' duties in processing entry documentation, (2) Customs efforts to streamline the import specialists' review process, (3) the results of the import specialists' reviews from the standpoint of the number and types of errors found in the entry documentation, and (4) Customs' efforts to measure the quality of the entry processing function.

The information contained in this report was developed at Customs headquarters in Washington, D.C., at the New York and Pacific Regional offices, and two of Customs districts--New York Seaport Area Office and the Los Angeles District. Of the 45 district offices, these two offices were selected because they are two of the largest districts in Customs and handle a broad range of merchandise. In fiscal year 1984, the two districts received about 1.1 million, or 18 percent, of the 6.5 million total entries received by Customs. They accounted for about $3.9 billion of the $12.5 billion in total duties and taxes assessed by Customs in that year. Further, about 20 percent of all import specialists are located at these sites.

To gather information on the activities of import specialists in reviewing entry documents, we reviewed Customs policies and operating guidelines, Customs studies, and documents the specialists work with. We also interviewed import specialists as well as other Customs officials at headquarters, the New York and Pacific regions, the New York Seaport Area Office, and the Los Angeles District.

To provide information on Customs efforts to streamline the import specialists review process, we interviewed Customs' Duty Assessment officials and reviewed the selective entry processing systems Customs has implemented to address the increasing workload. We also analyzed the bypass reports submitted to Customs headquarters by its regions.

To identify the results of the import specialists reviews, we selected and analyzed a random sample of 1,313 changed entries with 1,509 changes in the New York Seaport Area Office and the Los Angeles District. Our work focused on formal entries which, in fiscal years 1983 and 1984, accounted for 99 percent of all Customs duties assessed.

Two samples were taken in each location--one for changes made in post-entry review and one for changes made in pre-entry review. The post-entry review sample was drawn at random from

the universe of liquidated entries changed in fiscal year 1983.[1] At the time of our review, this was the most recent fiscal year for which a complete year's list of liquidated entries was available.

Because Customs does not maintain historical data on entries which are changed during pre-entry review, we selected entries at the completion of the pre-entry review process by working with the import specialists as they reviewed the entry documents and before they returned them to importers/brokers for correction. The sample was drawn at random from the universe of pre-entry review changes made during the month of July 1984. The table below shows the universes of changed entries in each district and the number of sample cases we reviewed.

Fiscal Year 1983 Post-entry Review Changed Entries

	Universe	Number of changes estimated in universe	Sample	Number of changes in sample
New York Seaport	23,875	26,891	380	428
Los Angeles District	22,852	24,716	380	411
Total	46,727	51,607	760	839

July 1984 Pre-entry Review Changed Entries

	Estimated Universe	Number of changes estimated in universe	Sample	Number of changes in sample
New York Seaport	878	1,116	277	353
Los Angeles District	932	1,070	276	317
Total	1,810	2,186	553	670

We are 95-percent confident that our sample findings are within 5 percentage points of what would have been found had we examined all pre-entry and post-entry cases in our universe.

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[1]The universe does not include entries liquidated in minor ports in the two districts (about 0.3 percent of total entries liquidated) or vessel repair entries, appraisement entries, and drawbacks (1.9 percent of total entries liquidated). We also eliminated from the universe entries which were presented to Customs prior to fiscal year 1979. Additionally, many of these cases were initially reviewed by import specialists who were no longer available for interview.

We interviewed headquarters officials involved in overseeing and conducting the quality assurance program. We also examined memorandums assessing the accuracy and usefulness of the program prepared by regional and district officials at the request of headquarters. In addition, we analyzed the results of the 1983 quality assurance reviews in the seven regions and reviewed Customs plans for future detailed management reports to be prepared from information obtained through quality assurance reviews.

Our work was conducted in accordance with generally accepted government auditing standards. We performed our audit work from January 1984 to January 1985.

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